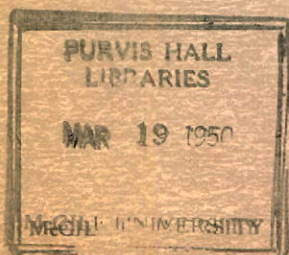


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ANNUAL REPORT

For the year ended December 31 • 1949

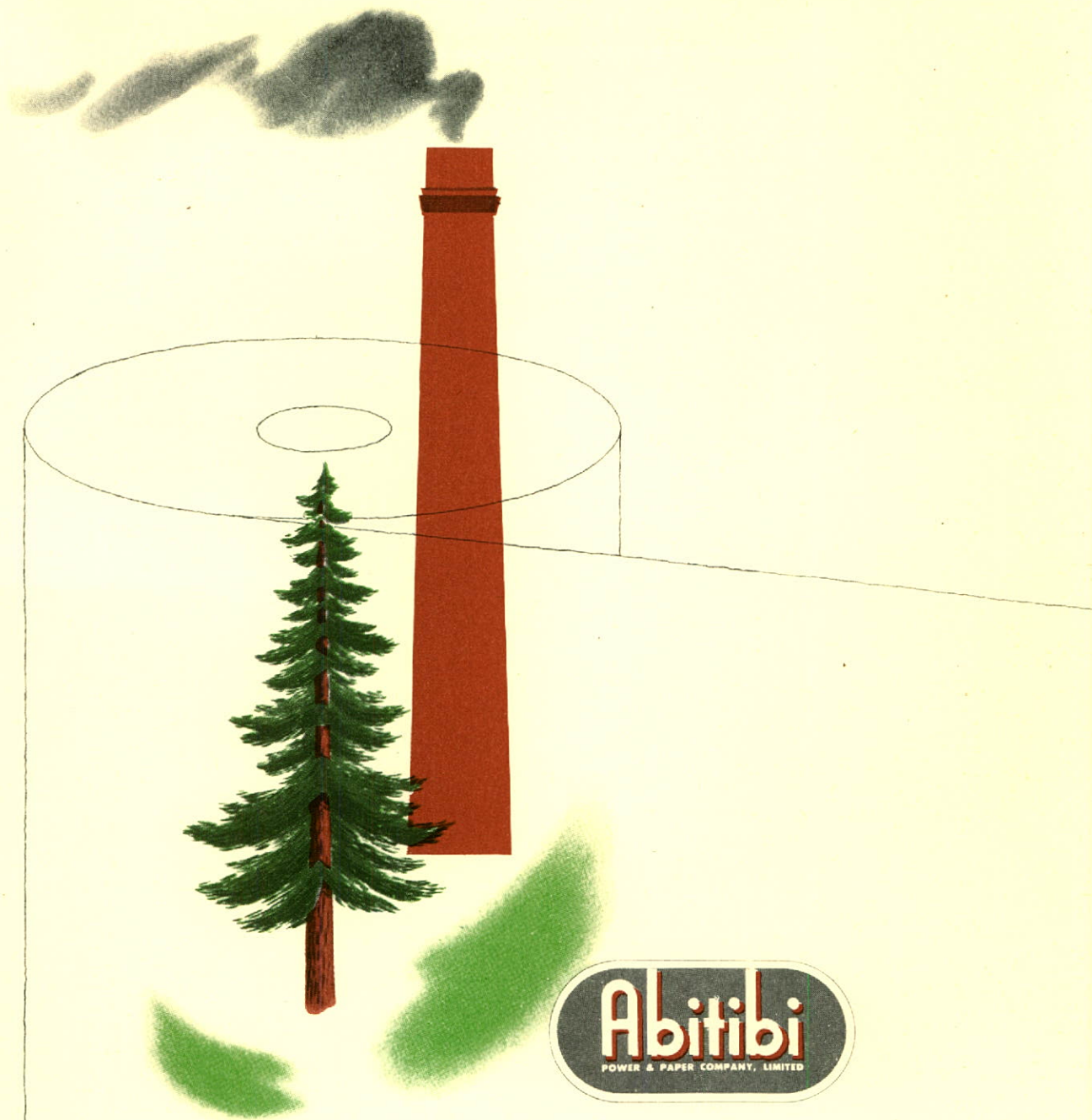


Story of the Cover

SEVEN FALLS

This crystal waterfall is only eight miles from Abitibi's Beaupre mill and townsite in Quebec. On the Ste. Anne River near St. Fereol, it's one of the favorite beauty spots of the district. The falls drop 400 feet in 200 yards—an exciting and spectacular sight.

Visitors to Ste. Anne Mill would be well rewarded for the eight-mile drive to this beauty spot, will get a thrill walking across the high level bridge at the dam owned by Quebec Power Company. Beside the power plant nestles a little community and school in full view of the turbulent waters where an open picnic ground attracts summer visitors.



ANNUAL REPORT *for the year ended December 31 • 1949*



Executive Offices: 408 University Avenue, Toronto, Ontario

BOARD OF DIRECTORS

<i>*Douglas W. Ambridge</i>	<i>*James Henry Gundy</i>
<i>Hon. Edouard Asselin, K.C.</i>	<i>T. Rodgie McLagan</i>
<i>Edward W. Bickle</i>	<i>Robert H. Reid</i>
<i>Harry J. Carmichael</i>	<i>Joseph P. Ripley</i>
<i>Allan Graydon, K.C.</i>	<i>*William H. Smith</i>
<i>*J. S. D. Tory, K.C.</i>	

**Members of Executive Committee*

OFFICERS

<i>Douglas W. Ambridge, President and General Manager</i>	<i>Howard Young, Treasurer</i>
<i>William H. Smith, Vice-President</i>	<i>Laurence B. Popham, Secretary</i>

MANAGEMENT COMMITTEE

<i>Douglas W. Ambridge, Chairman</i>	<i>Clark B. Davis, Manager of Woodlands</i>
<i>William H. Smith, Vice-Chairman</i>	<i>Thomas A. Hendry, General Sales Manager</i>
<i>Robert J. Askin, Manager of Mills</i>	<i>Paul E. Roberts, Manager New Developments</i>
<i>Howard Young, Treasurer</i>	

TRANSFER AGENTS

Montreal Trust Company, Toronto, Ont., Montreal, Que. and Vancouver, B.C.
City Bank Farmers Trust Company, New York, N.Y.

REGISTRARS

The Toronto General Trusts Corporation, Toronto, Ont. and Vancouver, B.C.
The Eastern Trust Company, Montreal, Que.
The National City Bank of New York, New York, N.Y.

AUDITORS

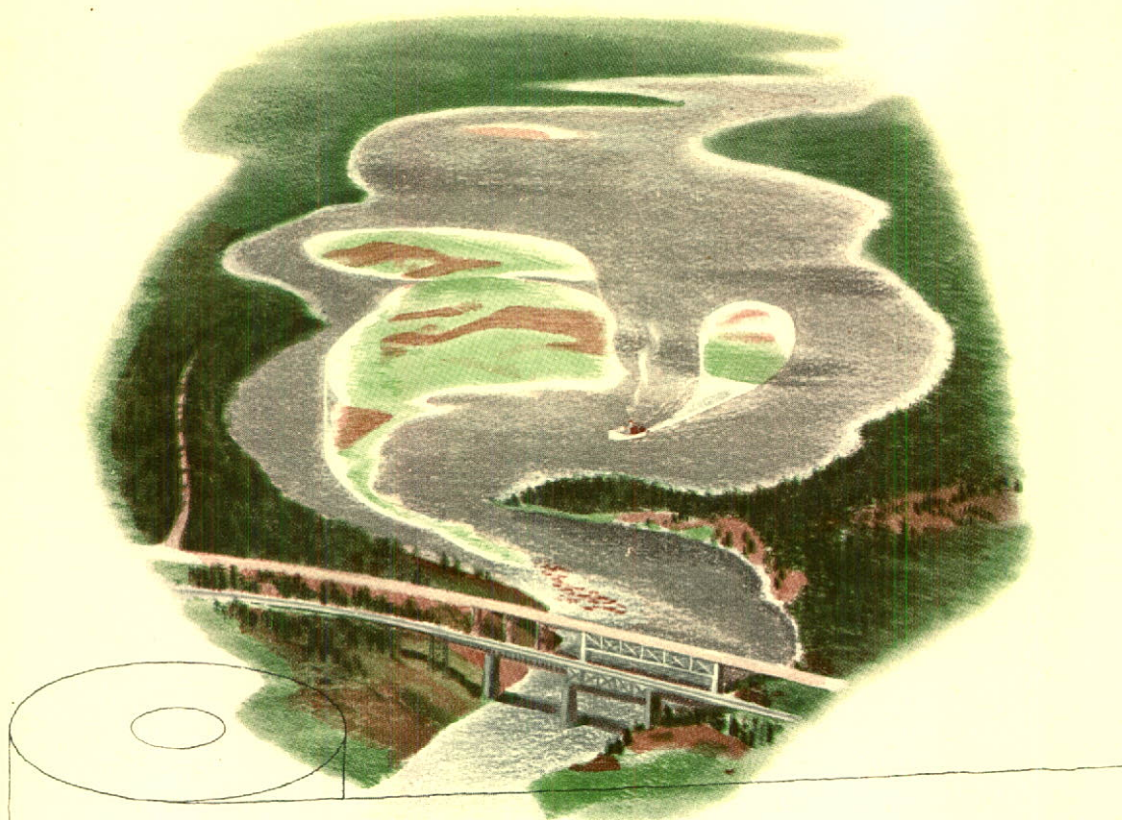
Price, Waterhouse & Co., Toronto, Ont.

PROVINCIAL PAPER, LIMITED BOARD OF DIRECTORS

<i>Douglas W. Ambridge, President</i>	<i>Arthur P. Jewett, General Manager</i>
<i>Walter S. Barber, Secretary-Treasurer</i>	<i>William H. Smith, Vice-President</i>
<i>Clark B. Davis</i>	<i>J. S. D. Tory, K.C.</i>
<i>Allan Graydon, K.C.</i>	<i>Howard Young</i>



REPORT OF THE PRESIDENT



TO THE SHAREHOLDERS OF
ABITIBI POWER & PAPER COMPANY, LIMITED

The results of the operations of your Company during the year 1949 were on the whole satisfactory, although sales were moderately lower and profits substantially less than they were in 1948.

This was so for several reasons.

Tonnage of newsprint paper sold was 1% lower than it was in 1948, due entirely to the disappearance of any need among United

States publishers for "quarter-size rolls," which had the effect of reducing the "trim" and hence the saleable output of all the newsprint machines in the Company.

Tonnages of bleached sulphite pulp and of corrugating board sold were also lower, due to our own policy of continually improving quality, even at the expense of production.

The market for fine papers outside of North

America practically disappeared during the year due to dollar shortages, and this unfortunate state of affairs is reflected in somewhat lower sales of most grades of papers made in the mills of your subsidiary company, Provincial Paper, Limited.

It was found that it is no longer profitable to manufacture unbleached sulphite pulp at the Sault Ste. Marie mill in view of the low price for this product which continues to prevail, and in August this operation was discontinued.

Moreover, costs of production during the year were again higher than they were in 1948. For the past several years the costs of production, not only in your Company but in the whole Canadian pulp and paper industry, have increased steadily each year. It is obviously of the utmost importance that this trend be stopped if the industry is to maintain its competitive position on this continent and in the world.

On September 19, 1949 the Government of Canada announced the devaluation of the Canadian dollar. This step was taken at the same time that the British Government devalued the pound sterling. Both steps were taken in an effort to bring about a better balance of trade.

While devaluation will to some extent increase the revenues of your Company from that part of its production which is sold in the United States, there are many offsetting factors which reduce the net increase in revenue very much more substantially than is generally supposed. Materials, supplies and equipment which can only be obtained in the United

States all cost 10% more now than they did before devaluation, and this material and equipment is used in the total production of your Company not only in that part of it which is sold in the United States.

Two important steps were taken during the year by your Directors.

On August 1st all the prior preferred shares of the Company were retired.

In November a policy of gradual retirement of the preferred shares was announced and put into effect.

Your Directors feel that both these steps are of great importance in the establishment of your Company on a permanent and secure basis.

This year, for the first time, the Annual Reports of Abitibi Power & Paper Company, Limited and of Provincial Paper, Limited have been consolidated. This has been done in the interests of simplification and because your Directors feel that a consolidated statement gives a more accurate picture of the business as a whole. In order to make comparisons between 1949 and 1948 easier, the various statements in this report contain the consolidated figures, side by side, for both these years.

EARNINGS

Profit for the year ended December 31, 1949 after all charges was \$9,780,947. It will be remembered that last year a special appropriation of \$1,500,000 was deducted from the total profit for 1948 as a reserve against a possible

decline in inventory values. No similar appropriation was considered necessary this year. The total profit for the year was 17% less than the total profit in 1948. This was due to the factors mentioned above.

After a lapse of over 20 years dividends on the common stock of the Company were resumed, and a total of \$1.00 per share amounting to \$1,241,276 was paid during the year.

In addition, a dividend of 50 cents per common share was declared payable on January 1, 1950. It is hoped to maintain quarterly common

dividends at this rate throughout the year.

This evidence of the restored earning power of the Company is a source of deep satisfaction to your Directors.

A total sum of \$2,116,605 was paid or accrued in dividends to the holders of the prior preferred and the preferred shares. This obligation will henceforth decrease gradually as preferred shares are retired.

The table below shows the distribution of the revenues received during the year.

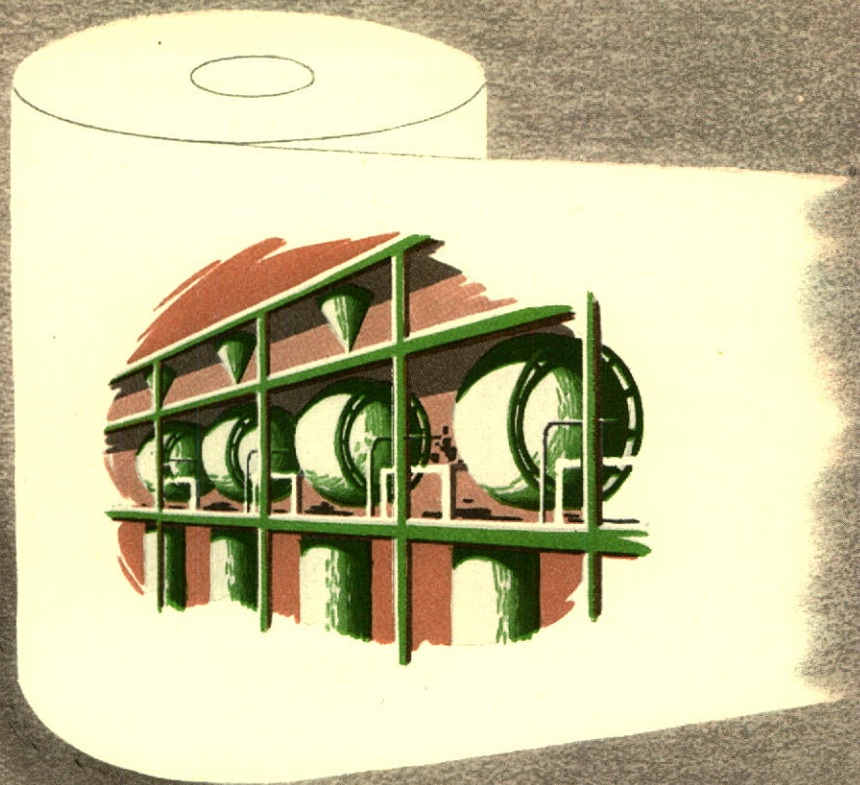
THE SALES DOLLAR

PAID FOR MATERIALS AND SERVICES	35.7	Cents
SET ASIDE FOR DEPRECIATION AND DEPLETION	6.0	
RETAINED IN THE BUSINESS	6.9	
GOVERNMENT AND MUNICIPAL TAXES	10.0	
BOND INTEREST	<u>1.7</u>	
	60.3	Cents
This left 39.7 cents out of each sales dollar for the payment of wages and salaries to our employees and for dividends. This remainder was distributed as follows:		
PAID TO EMPLOYEES AS WAGES AND SALARIES	33.3	Cents
EMPLOYEES' RETIREMENT INCOME PLAN, GROUP INSURANCE, ETC.	1.7	
DIVIDENDS ON PREFERRED SHARES	2.5	
DIVIDENDS ON COMMON SHARES	<u>2.2</u>	
	39.7	Cents
TOTAL	\$1.00	

WORKING CAPITAL

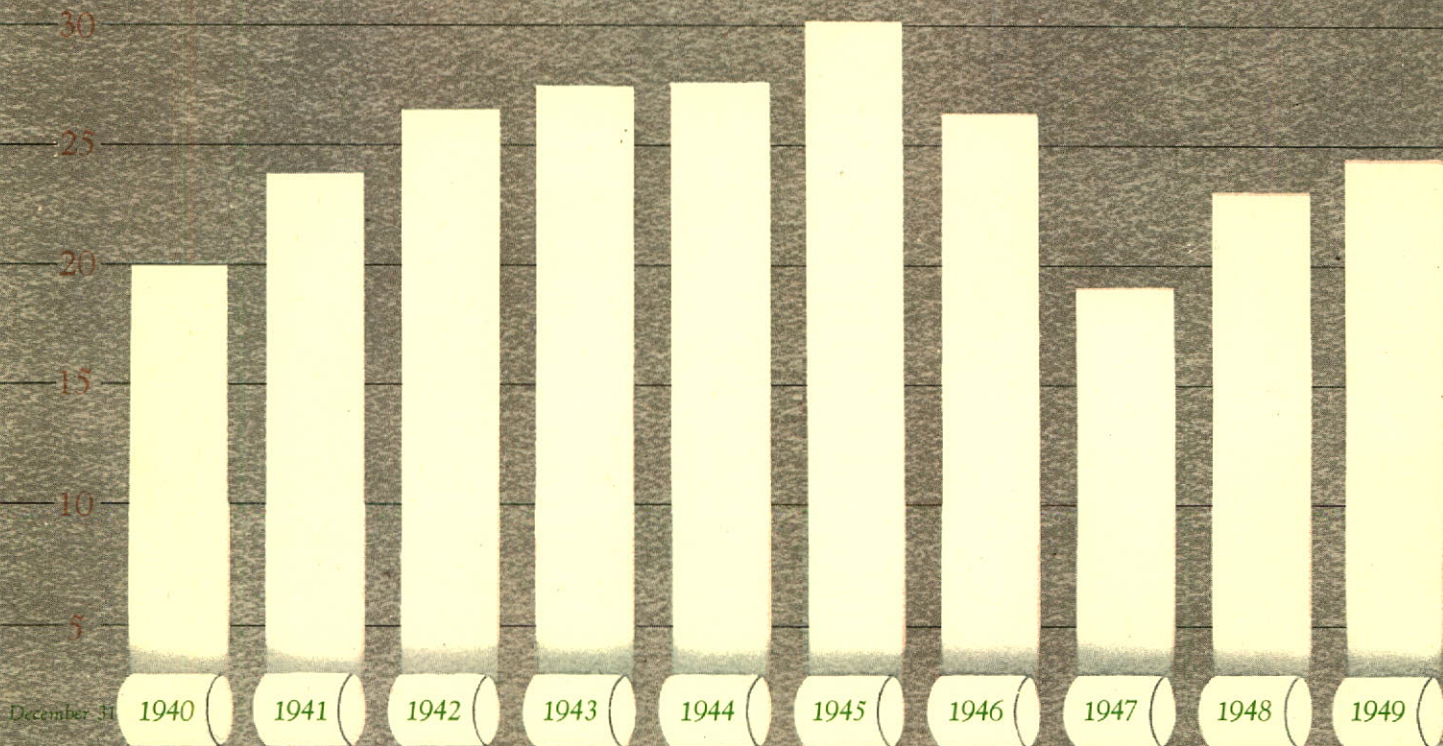
The accompanying chart shows the amount of working capital which has been available in

recent years. It will be noted that for the past two years your Company's working capital has been increasing.



WORKING CAPITAL

Millions of Dollars



BALANCE SHEET

The balance sheet reflects a striking improvement in your Company's liquid position. This improvement has been achieved mainly in two ways: (a) the sale, for \$5,000,000 in cash, of the Kaministiquia Power Co., Limited which was effected in March 1949, and (b) a substantial reduction in the total amount of cash tied up in inventories of all kinds. It is the opinion of your Directors that this reduction of inventories has now been carried as far as is desirable.

It will be noted that under the heading CAPITAL ASSETS, properties, plant and equipment as at April 30, 1946, are shown at gross physical values as reported by Messrs. Coverdale & Colpitts, Consulting Engineers, New York, while the properties, plant and equipment of Provincial Paper, Limited, at the same date are shown at book values.

Effect was not given on the books of Provincial Paper, Limited to the values of their properties established by Coverdale & Colpitts, as of December 31, 1946, but had this been done the book figures would have been increased materially.

You will observe from the balance sheet, under the heading CAPITAL STOCK, that during the fiscal year ended December 31, 1949 prior preferred shares of the par value of \$1,000,000 have disappeared and there has been a reduction of \$2,069,520 in the par value of outstanding preferred shares. These changes result from the redemption as of August 1, 1949 of the entire issue of 50,000 prior preferred

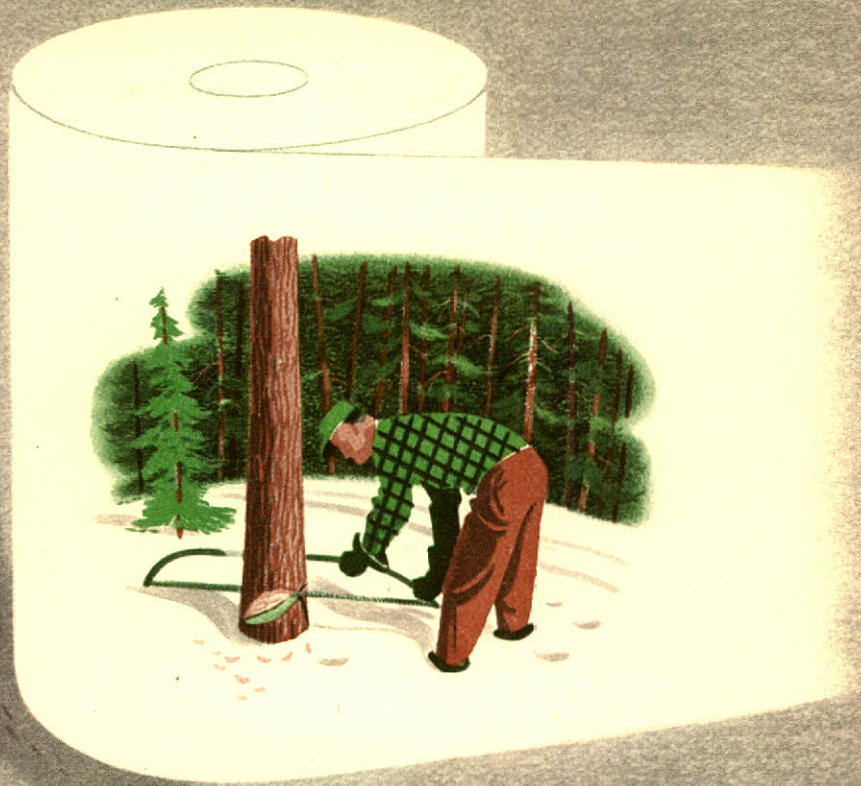
shares and the purchase for cancellation in 1949 of 103,476 preferred shares.

It will also be noted that a new item appears on the balance sheet - CAPITAL SURPLUS, resulting from retirement of Prior Preferred and Preferred Shares - \$3,069,520. This item results from our having transferred from Earned Surplus to Capital Surplus in 1949, in accordance with the provisions of The Companies Act, 1934, as amended, the amounts of \$1,000,000 and \$2,069,520 above mentioned. Corporate action looking to the issue of Supplementary Letters Patent confirming the reduction in our authorized capital stock resulting from the retirement of prior preferred and preferred shares and restoring to Earned Surplus the aggregate amount of \$3,069,520 so transferred to Capital Surplus, has been initiated by the Directors as By-Law No. 8 which the shareholders will be asked to sanction at the Annual and Special General Meeting of Shareholders to be held in Toronto on Thursday, April 13th next.

RESEARCH & DEVELOPMENT

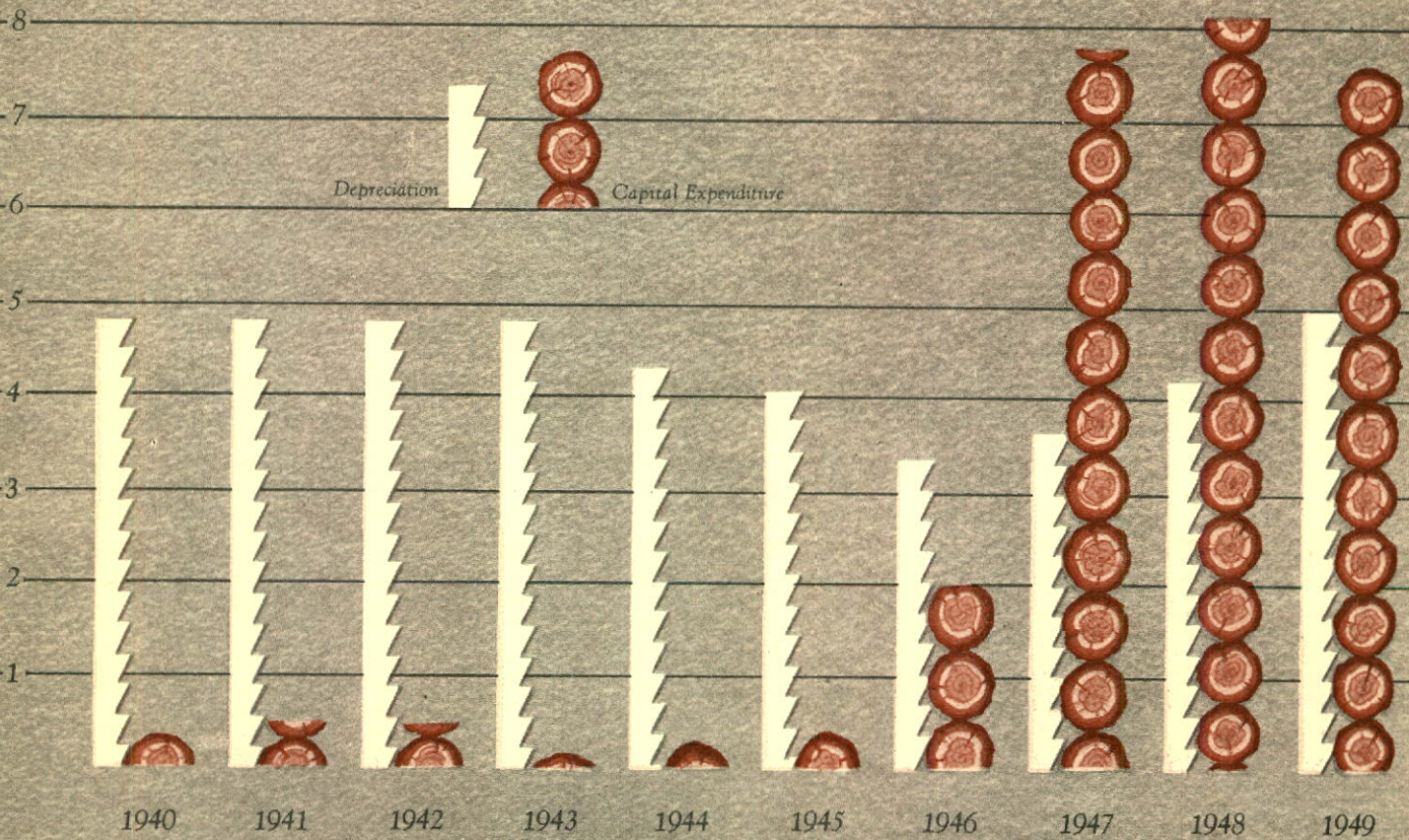
The central research organization at Sault Ste. Marie continues to grow and to function effectively. Several long-range projects are receiving great attention. Some new products have been developed by the research staff of Provincial Paper, Limited, which acts independently in the field of fine paper products. These have been put on the market and have been well received. The cover on this report is an example.

It is hoped that it will be possible to announce a new project by the time the semi-annual report



COMPARISON BETWEEN CAPITAL EXPENDITURE AND DEPRECIATION

Millions of Dollars



to shareholders is published. This project is in the final stages of design as this report is written.

Together with the development of manufacturing processes your Company is energetically working on the improvement of forest practices and on the problem of fire prevention in the forests.

Recent legislation by the Government of Canada now makes it possible for the Provinces to seek and get federal aid for schemes designed to develop and protect the forest areas of the nation. Your Company is actively taking part in a study of the fire prevention needs of Manitoba to the end that adequate equipment and access roads may be provided as soon as possible.

This new legislation opens up great possibilities of common effort by the Provinces and the Federal Government, and the results may well be that fire, the prime enemy of the forests, may soon be brought under effective control.

PROPERTIES

During the past three and a half years large sums have been spent on the restoration and improvement of your Company's physical assets. The major requirements have now been provided. Your Directors, however, feel that the properties of the Company can be maintained in first class condition only if they are continually kept up to date by the wise expenditure of at least the amount set aside each year for depreciation.

It must be remembered that an industry in good health can only be kept in that condition

by the exercise which results from the reaching out for new methods, new processes and improved products.

Your Company must always be ready and able to apply the most progressive ideas. It is, of course, impossible to predict when or in what form these new challenges will appear and your Directors are fully alive to the need to be ready for them when they do.

The new grinder room, screen room and wood room at Iroquois Falls have been in successful operation for several months. The new power house is being completed in an orderly way, well ahead of schedule, and the whole project will be in its final form by April 1950.

At Sturgeon Falls a new chemical plant was built and put into operation during the year and has resulted in a much more economical operation at that mill.

A new wood room has been installed at Sault Ste. Marie which has proved very satisfactory.

The mills of Provincial Paper, Limited have been improved in many ways and a great deal of modern equipment has replaced worn out or outdated machines.

The steam plants of the Company's mills have all received great attention and several new and efficient boilers have been brought into operation. This modernization of the Company's fuel burning equipment is proceeding steadily and much still remains to be done.

A new hospital is now in operation at Smooth Rock Falls. This badly needed addition was



PRODUCTION - TONS

	NEWSPRINT PAPER	PRINTING AND FINE PAPERS	BLEACHED SULPHITE PULP	UNBLEACHED SULPHITE PULP	GROUNDWOOD PULP	BOARD
1940	439,300	45,138	50,843	21,280	544	2,135
1941	482,344	50,018	57,209	28,653	968	1,022
1942	429,366	50,406	59,001	43,206	5,126	1,603
1943	474,808	50,300	60,364	41,688		1,289
1944	441,721	54,264	58,782			1,482
1945	456,412	56,335	59,288	6,978	11,405	1,149
1946	611,645	61,725	53,144	28,266	802	800
1947	657,556	65,628	59,484	37,548	4,287	8,213
1948	680,539	68,914	61,020	38,968	4,655	35,644
1949	673,297	64,900	57,418	11,804	93	31,605

built by the Company with some assistance from the Government of Canada and the Ontario Government. It will serve the needs not only of the town of Smooth Rock Falls, but also of the surrounding district.

INDUSTRIAL RELATIONS

The maintenance and development of the good relations with organized labour, which your Company has always had, continues to be a major objective of Company policy. Your Company has always believed in collective bargaining with the chosen representatives of the employees. For more than thirty years the Company has practised collective bargaining with the chosen representatives of



the employees and has had a long experience in establishing fair wages and working conditions by these methods.

Your Company, however, believes that if collective bargaining is to be as useful in the future as it has been in the past, then, its methods and its procedures must be subject to constant scrutiny, revision and improvement.

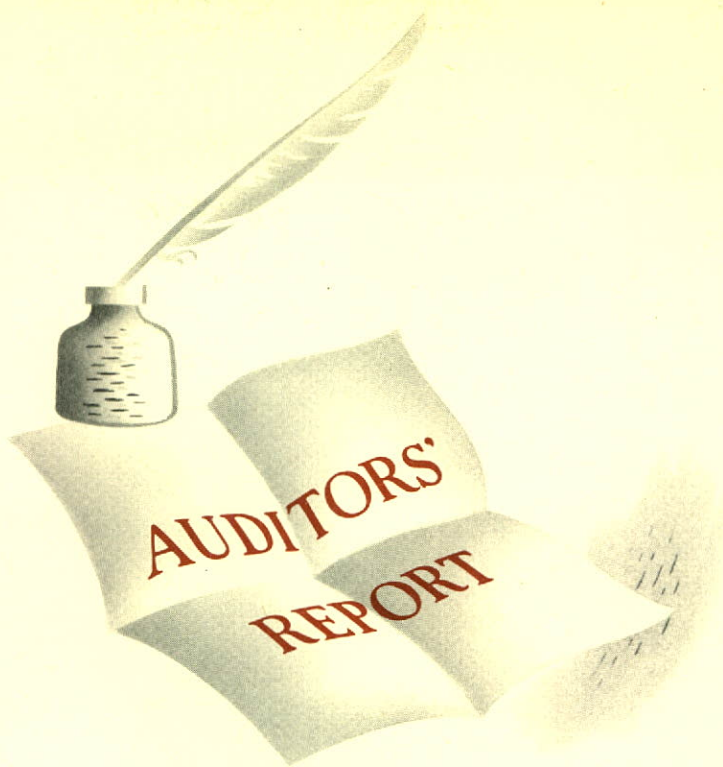
For this reason the Company has been very active in developing with the public, the employees and the shareholders a better understanding of its problems and its aims.

Your Directors take a justifiable pride in the spirit which exists throughout the Company, and wish to express their recognition of the loyalty and cooperation of the employees during the year.

On behalf of the Board,

PRESIDENT

Toronto, March 1, 1950



PRICE, WATERHOUSE & CO.

ROYAL BANK BUILDING

TORONTO

February 8 1950.

To the Shareholders of
ABITIBI POWER & PAPER COMPANY, LIMITED:

We have examined the consolidated balance sheet of Abitibi Power & Paper Company, Limited and subsidiary companies as at December 31 1949 (with comparable balances as at December 31 1948) and the related consolidated statements of profit and loss and surpluses for the year ended December 31 1949 (with comparable statements for 1948) and have obtained all the information and explanations which we required. Our examination included such tests of the accounting records and other supporting evidence and such other procedures as we considered appropriate in the circumstances.

In our opinion, the accompanying consolidated balance sheet is properly drawn up so as to exhibit a true and correct view of the state of the affairs of the companies as at December 31 1949 (with comparable balances as at December 31 1948) and the related consolidated statements of profit and loss and surpluses fairly present the result of operations for the year ended December 31 1949 (with comparable statements for 1948) according to the best of our information and the explanations given to us and as shown by the books of the companies.

A large, elegant handwritten signature in dark ink, which appears to read 'Price Waterhouse & Co.', is written over the word 'Auditors'.

Auditors.



ABITIBI POWER & PAPER

CONSOLIDATED BALANCE

(With comparable balances)

ASSETS

CURRENT ASSETS:

	1949	1948
Cash on hand and in banks.	\$ 5,043,027	\$ 891,812
Dominion of Canada bonds.	—	63,000
Accounts receivable, less reserves.	8,998,783	9,488,032
Inventories of paper, pulp, wood, materials and supplies on the basis of cost and expenditures on logging operations.	25,688,899	30,772,987
	<u>\$ 39,730,709</u>	<u>\$ 41,215,831</u>

NOTE: Net current assets in United States funds amounting in 1949 to \$5,306,853 are included at par of exchange.

CAPITAL ASSETS:

Properties, plant and equipment as at April 30, 1946 — at gross physical values as reported by Messrs. Coverdale & Colpitts, Consulting Engineers, New York, except as to Provincial Paper, Limited included at book values.	\$118,403,451	\$118,403,451
Subsequent additions at cost.	25,318,451	17,760,671
	<u>\$143,721,902</u>	<u>\$136,164,122</u>
Less — Retirements, etc.	10,302,894	1,263,581
	<u>\$133,419,008</u>	<u>\$134,900,541</u>
Less — Accrued depreciation, including provisions since May 1, 1946; adjusted for retirements.	56,413,905	56,873,840
	<u>\$ 77,005,103</u>	<u>\$ 78,026,701</u>
Timber concessions, agreements and licenses, waterpower rights and freehold timber areas, less provisions for depletion of \$2,734,846 (\$2,609,846 in 1948)	16,097,533	16,222,533
	<u>\$ 93,102,636</u>	<u>\$ 94,249,234</u>

DEFERRED CHARGES AND OTHER ASSETS:

Prepaid insurance, taxes, etc.	\$ 932,950	\$ 608,464
Bond discount and expense.	684,760	785,157
Miscellaneous investments and other assets.	579,285	415,031
	<u>\$ 2,196,995</u>	<u>\$ 1,808,652</u>

APPROVED ON BEHALF OF THE BOARD:

D. W. AMBRIDGE, Director
W. H. SMITH, Director

\$135,030,340 \$137,273,717

COMPANY, LIMITED AND SUBSIDIARY COMPANIES

SHEET DECEMBER 31, 1949

as at December 31, 1948)

LIABILITIES

CURRENT LIABILITIES:

	1949	1948
Bank loan (secured)	\$ —	\$ 2,000,000
Accounts payable and sundry accruals	6,433,390	6,885,402
Dividends payable	1,106,071	554,477
Interest accrued on First Mortgage Bonds	339,626	367,084
Provision for income and other taxes	5,495,742	5,710,660
Serial and sinking fund payments due April 1, 1950 on First Mortgage Bonds	1,918,000	2,387,000
	<u>\$ 15,292,829</u>	<u>\$ 17,904,623</u>

FIRST MORTGAGE BONDS:

Authorized	\$65,000,000		
Issued and outstanding:			
3½ % First Mortgage Serial Bonds, Series "A"			
(\$1,000,000 maturing annually April 1, 1948 to 1957)			
Issued	\$10,000,000		
Redeemed and cancelled	2,000,000	\$ 8,000,000	\$ 9,000,000
3½ % First Mortgage Twenty-Year Bonds, Series "A",			
maturing April 1, 1967			
Issued	\$35,000,000		
Redeemed and cancelled	3,449,500	31,550,500	33,452,500
		<u>\$ 39,550,500</u>	<u>\$ 42,452,500</u>
Less —			
Bonds purchased for redemption	\$ 736,000		
Bonds redeemable April 1, 1950, provided for above	1,900,000	2,636,000	2,887,000
		<u>\$ 36,914,500</u>	<u>\$ 39,565,500</u>

RESERVE AGAINST POSSIBLE DECLINE IN INVENTORY VALUES:

(Including \$550,000 transferred in 1949 from General Reserve)	\$ 4,500,000	\$ 3,950,000
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GENERAL RESERVE	\$ —	\$ 629,536
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PREFERENCE SHARES OF A SUBSIDIARY COMPANY:

4% cumulative preference shares of Provincial Paper, Limited; redeemable at \$53.50 a share — 20,000 shares of \$50 each	\$ 1,000,000	\$ 1,000,000
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CAPITAL STOCK:

Prior Preferred Shares —		
50,000 shares of \$20 each redeemed in 1949	\$ —	\$ 1,000,000
Preferred Shares —		
Annual cumulative dividend of \$1.50 a share; redeemable at \$25 a share — 1,291,796 shares of \$20 each (1,395,272 shares in 1948) ...	25,835,920	27,905,440
Common Shares —		
1,241,694 shares without nominal or par value	25,941,295	25,941,295
	<u>\$ 51,777,215</u>	<u>\$ 54,846,735</u>

CAPITAL SURPLUS, resulting from retirement of Prior Preferred and Preferred Shares

	\$ 3,069,520	\$ —
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EARNED SURPLUS, since May 1, 1946	\$ 22,476,276	\$ 19,377,323
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	<u>\$135,030,340</u>	<u>\$137,273,717</u>
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ABITIBI POWER & PAPER COMP

CONSOLIDATED STATEMENT OF PROFIT AND LOSS

FOR THE YEAR ENDED DECEMBER 31, 1949

(With a comparable statement for the year ended December 31, 1948)

	1949	1948
Net Sales – after deducting outward freight, etc.	\$84,677,709	\$87,756,852
Less – Operating costs including administrative, selling and general expenses, but before provision for depreciation, depletion, etc.	59,179,992	60,068,928
	<u>\$25,497,717</u>	<u>\$27,687,924</u>
Deduct –		
Provision for depreciation	\$ 4,993,241	\$ 4,204,018
Provision for depletion	125,000	260,000
Employees' retirement income plan	1,264,256	1,116,486
Amortization of bond discount and expense	100,397	153,697
Interest on First Mortgage Bonds	1,393,876	1,499,499
Dividends on outstanding preference shares of Provincial Paper, Limited	40,000	40,000
	<u>\$ 7,916,770</u>	<u>\$ 7,273,700</u>
Profit before provision for taxes on income	\$17,580,947	\$20,414,224
Deduct – Provision for taxes on income	7,800,000	8,643,638
Net profit for the year	<u>\$ 9,780,947</u>	<u>\$11,770,586</u>
Less – Appropriation against possible decline in inventory values	–	1,500,000
Net profit for the year (after a special appropriation of \$1,500,000 in 1948) carried to Earned Surplus	<u><u>\$ 9,780,947</u></u>	<u><u>\$10,270,586</u></u>

NOTE: Fees of directors not holding salaried positions amounted to \$22,100 for the year (\$22,550 in 1948) and counsel and solicitors' fees, salaries and fees of executive officers and directors holding salaried positions amounted to \$401,085 for the year (\$417,515 in 1948).

ANY, LIMITED AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENT OF EARNED SURPLUS

(Since May 1, 1946)

FOR THE YEAR ENDED DECEMBER 31, 1949

(With a comparable statement for the year ended December 31, 1948)

	1949	1948
Earned surplus at beginning of year, as per annual report	\$17,436,790	\$10,241,612
Equity in subsidiary companies (not consolidated at beginning of year) in excess of book value of investment in shares of such companies; equivalent to undistributed earnings since May 1, 1946	1,940,533	1,083,033
Earned surplus at beginning of year - adjusted	\$19,377,323	\$11,324,645
Net profit for the year (after a special appropriation of \$1,500,000 in 1948)	9,780,947	10,270,586
Surplus arising from sale of capital assets	1,593,396	-
	\$30,751,666	\$21,595,231
<i>Deduct -</i>		
Excess of cost over par value of Prior Preferred and Preferred Shares retired	\$1,227,338	
Amount transferred to Capital Surplus upon retirement of Prior Preferred and Preferred Shares	3,069,520	4,296,858
	\$26,454,808	\$21,595,231
<i>Deduct -</i>		
Dividends on -		
Prior Preferred Shares	\$ 62,500	\$ 125,000
Preferred Shares	2,054,105	2,092,908
Common Shares	1,861,927	-
	\$ 3,978,532	\$ 2,217,908
Earned Surplus at end of year	<u>\$22,476,276</u>	<u>\$19,377,323</u>

CONSOLIDATED STATEMENT OF CAPITAL SURPLUS

FOR THE YEAR ENDED DECEMBER 31, 1949

Amount transferred from Earned Surplus pursuant to the provisions of The Companies Act, 1934:	
Par value of Prior Preferred Shares redeemed August 1, 1949 - 50,000 shares of \$20 each	\$ 1,000,000
Par value of Preferred Shares retired during 1949 - 103,476 shares of \$20 each	2,069,520
Capital Surplus at end of year	<u>\$ 3,069,520</u>



SITES OF PAPER MILLS, PULP
MILLS AND DEVELOPED
WATER POWERS



NEWSPRINT



EXECUTIVE
OFFICES



CORRUGATING
BOARD



DEVELOPED
WATER POWER



BLEACHED
SULPHITE



BOOK PAPER







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